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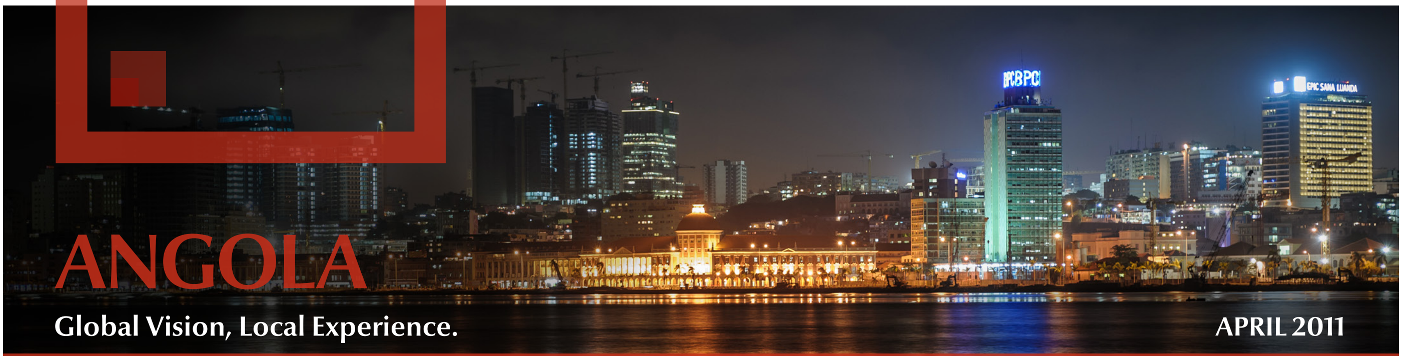

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ANGOLA: FOREIGN EXCHANGE FRAMEWORK APPLICABLE TO THE PETROLEUM SECTOR

The highly anticipated law setting out the foreign exchange rules applicable to the petroleum sector was enacted through Law No. 2/12 of 13 January 2012 (PFEL). The new framework came into force on 12 May 2012 and will prove to be a game changer in Angolan petroleum and banking sectors. Thus far the foreign exchange rules vis-à-vis petroleum concessions were mainly set forth in foreign exchange annexes D and C to Concession Decrees. In other words, until now and albeit somewhat harmonized, the rules were pulverized in several legal statutes.

The PFEL applies to current and future petroleum concessions in Angola and supersedes any special prerogatives that Sonangol and its foreign or national associates (Associates) may have. It is truly an ambitious law that brings about the Executive's goal to strengthen the Angolan banks through the mandatory intermediation of national banking entities by pulling oil and gas cash flows into the national banking system.

Per the new rules, Sonangol and its Associates are required to process all payments out of Angolan bank accounts irrespective of the foreign exchange residency of the contractor or supplier. In addition, two main bank accounts shall be maintained in Angola: (i) one in USD to pay services or goods provided by foreign contractors and (ii) one in Kwanza to pay services and goods provided by local entities. Furthermore, all payments may only be made after compliance with tax obligations in relation thereto. The significant change is that all payments shall be made from Angolan bank accounts.

The PFEL further provides that upon compliance with tax obligations and payment of cash-call expenses, the foreign associates may freely allocate the balance of the USD account to the national or international markets. Moreover, the amounts corresponding to profits, dividends, incentives and/or other capital or investment return may be deposited abroad by foreign associates whereas national associates may only hold these amounts in Angolan banks. The law does nonetheless allow national associates to deposit amounts abroad in escrow accounts insofar required and previously authorized by the BNA.

Despite the mandatory intermediation by Angolan banks, the PFEL accommodates the underlying urgent nature of the petroleum industry and allows foreign exchange operations vis-à-vis payment of services and goods to be made without the prior approval of the BNA. On the other hand, capital operations vis-à-vis external investments are not covered by this exception and thus require the BNA prior approval.

The BNA remains as the foreign exchange watchdog and the operators shall present annual reports with a list of all contracts entered into with non-resident entities. Separately, Sonangol and its Associates shall independently provide an annual budget estimate in relation thereto with a monthly breakdown.

In this regard, the BNA recently issued Order No. 20/2012 that set out the compliance procedures and schedule vis-à-vis the PFEL. Each date below is the effective date of the corresponding obligation.

13 May 2012	Amounts w/r/t tax obligations need to be deposited in local bank accounts in foreign currency.
1 October 2012	Payments of services and products by Sonangol or its Associates are made through local bank accounts (in local or foreign currency).*
1 July 2013	Payments of services and products to local contractors are made in local currency (to be noted that as from 1 October 2012 payments were already made from local bank accounts, but are made in Kwanza as of this date).
1 October 2013	Payments of services and products to foreign contractors by the Operator are made from local bank accounts.*

* The wording of the BNA Order No. 20/2012 is somewhat unclear in this regard. The statute allows payments to be made offshore by means of Angolan bank accounts as of 1 October 2013. Considering that the obligation of **1 October 2012** somewhat overlaps with the obligation of 1 October 2013, it may be possible for non-resident contractors to be paid from foreign bank accounts until 1 October 2013.

It is fair to say that the Angolan banking system will feel a strong backlash as a result of the PFEL. The PFEL gathers the scattered petroleum foreign exchange rules in one single statute, thus harmonizing the legal framework. One may also say that, by imposing national banking intermediation the Executive is truly giving a signal to the markets that the Angolan banking system is flourishing and is now capable to accommodate the cash-flow needs of an ever-growing Angolan oil and gas sector. All in all, the PFEL can be considered as a giant leap towards a strong and healthy Angolan banking system and we shall see in the near future how Angolan banks will step up to the challenge and cope with the specific and demanding nature of the oil and gas operations.

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